

INFORMED BUDGETEER

CBO & OMB BUDGET UPDATES

- Last week CBO and OMB released their updated economic and budget outlooks. Both reports include effects of the Balanced Budget and Taxpayer Relief Acts of 1997 on the U.S. economy and the federal deficit.
- **DEFICIT OUTLOOK:** For FY 1997, CBO estimates the deficit to be \$34 billion less than the estimates used as the basis for the BBA. OMB’s estimate is slightly higher at \$37 billion.
- Both agencies report substantial surpluses in 2002: CBO at \$32 billion and OMB at \$63 billion. Over the long-term OMB projects a surplus of \$167 billion in the year 2007, enough to balance without the Social Security surpluses.
- The main difference between the two estimates is due to the scoring of Medicare savings in the BBA. CBO scored \$112 billion in savings with \$41 billion in 2002, while OMB scored \$150 billion with \$50 billion in 2002.

CBO REVISED BUDGET OUTLOOK						
(\$ in Billions)						
	1997	1998	1999	2000	2001	2002
May Baseline	67.2	89.0	109.1	121.3	94.5	104.9
Policy changes: disc caps	--	-4.0	-12.5	-25.9	-35.7	-59.9
BBA spending cuts	--	0.2	-12.6	-35.0	-18.2	-61.5
Tax Payer Relief Act	-0.1	9.5	9.9	27.9	29.3	23.9
Other Legislation	-1.8	-0.1	-0.1	-0.1	-0.1	-0.1
Total policy changes	-1.9	5.6	-15.3	-33.1	-24.7	-97.6
Econ & Tech. changes	-31.0	47.2	-63.4	-90.9	-116.4	-138.0
Total changes	-32.9	-32.4	-56.9	-73.0	-58.3	-136.8
Deficit/Surplus	34.4	56.6	52.2	48.3	36.2	-31.9

SOURCE: SBC based on CBO estimates. Revenue reduction shown as positive because it increases the deficit.

- **ECONOMIC OUTLOOK:** CBO projects long-run US GDP growth of 2.3% from 1999-2007 (up from March’s 2.1% estimate). CBO did not project any recession in the 10 year window, however it does project GDP growth to ease back from the 3.4% growth in 1997 between 1998 and 2002. Inflation is projected to rise slightly, reflecting above trend growth in 1997.
- The Administration’s projections show little change from the February budget. Real growth would average 2.4% a year, slightly higher than CBO. The small upward revision primarily reflects better measurement of inflation.
- **REVENUES:** CBO has forecasted that starting in 1998 revenue will grow more slowly than nominal GDP. These projections are based on an expected slowdown in capital gains realizations, the Taxpayer Relief Act, an expected slowdown in GDP, and a forecasted drop in corporate profits as the economy slows.
- 1997 revenues are now expected to exceed CBO’s winter forecast by \$71 billion. CBO states that roughly one third (\$23 billion) is due to faster economic and income growth. CBO has since raised its GDP and income share projections, and this economic revenue has been built into CBO’s baseline.
- For most of the remainder of the revenue re-estimate -- \$46 billion -- CBO has not been able to positively identify the source of the revenue increase. Of this \$46 billion CBO believes that only \$15 billion should be built into the baseline.
- OMB scored the tax cuts \$15 billion lower than CBO. Even so, this revenue stream assumes higher levels of personal income in the outyears, resulting in a revenue level of \$1.92 billion in 2007, similar to CBO.
- **DYNAMIC SCORING:** As part of their update, CBO analyzed the likely economic impact of the Balanced Budget Agreement (BBA). CBO believes that most of the economic effects from the BBA stem from deficit reduction -- this raises national savings, lowers interest rates, and helps to boost GDP.

- In the past, CBO had embodied such economic benefits in an explicit ‘fiscal dividend’. However, since CBO now assumes a balanced budget by 2002 in its current baseline forecast, they has incorporated such benefits into the economic forecasts directly.
- CBO also believes that the BBA’s cut in the capital gains rate from 28 % to 18 % will be an economic positive -- such tax cuts will raise the after-tax return on saving and thus encourage more savings. However, the overall impact is likely to be small in size since some capital gains are not taxed currently.
- CBO said that the impact of the expanded IRAs, estate tax relief and the child tax credit is a bit harder to determine, given a confluence of conflicting forces. CBO believes that the BBA’s education initiatives are likely to have their greatest benefit in the long-run, as improved human capital leads to higher productivity and GDP growth. In the short-run, CBO expects postsecondary enrollment to rise a bit while hours worked falls slightly as students delay entrance into the workforce to stay in school.

☞ **For the complete report** visit CBO’s web site: www.cbo.gov. The web site was launched in August and contains recently released reports, data highlights, cost estimates, testimony and more. A great resource, the *Bulletin* highly recommends a visit.

BALANCED BUDGET ACT & THE DEBT (\$)

- One of the most significant benefits of reaching and remaining in budget balance is the near-freeze in the stock of debt held by the public. If the surpluses that are now projected beyond 2002 are attained, debt held by the public will shrink from its current level of about 48 % of GDP to 30 % of GDP in 2007.
- Shrinking the public debt to that level will contribute favorably to the future budget outlook by reducing the cost of interest on financing past deficits. Furthermore, CBO notes a lower debt levels also contributes to future economic growth by increasing the capital stock.
- Debt subject to limit however, will continue to increase, even with the existence of unified budget surpluses. Remember that debt subject to limit includes debt held by the public as well as debt holdings of the Social Security, Medicare, and other government trust funds.
- The Balanced Budget Act of 1997 increased the debt limit to \$5.95 trillion, which should be sufficient (under current projections) through the summer of 2000. A balanced budget will unfortunately not remove the need to increase the debt limit in the future -- CBO projects that because the size of the trust fund surplus dwarfs the projected total budget surpluses after 2002, debt subject to limit continues to rise throughout the projection period.

Debt Held by the Public Vs. Debt Subject to Limit				
	Debt Held by the Public		Debt Subject to Limit	
	\$ billions	% of GDP	\$ billions	% of GDP
1998	3,859	46.4	5,525	66.4
1999	3,926	45.1	5,751	66.1
2000	3,988	43.8	5,979	65.6
2001	4,039	42.3	6,179	64.7
2002	4,021	40.1	6,339	63.1
2003	4,020	38.1	6,513	61.7
2004	4,003	36.1	6,674	60.2
2005	3,978	34.1	6,834	58.7
2006	3,916	32.0	6,996	57.2
2007	3,842	29.9	7,106	55.3

SOURCE: CBO Economic and Budget Outlook Update, September 1997.

THE SENATE’S PROCEDURES FOR OVERTURNING A CANCELLATION UNDER THE LINE ITEM VETO ACT

- On August 11th, the President used his authority under the Line Item Veto Act to cancel a provision of the Balanced Budget Act that allows New York State to use provider taxes collected before June 1, 1997 to generate Medicaid matching funds. CBO estimated that

this provision would increase direct spending by \$150 million in FY 1998. The President also canceled two limited tax benefit provisions in the Taxpayer Relief Act.

- On September 3rd, Senator Moynihan introduced S. 1144, a bill to overturn the President’s cancellation of the New York Medicaid provision. This bill has been referred to the Senate Finance Committee. Since the President only canceled one item in the BBA, this effectively means no amendments are in order to S. 1144 and a conference should not be necessary.
- The question is whether the Senate and House will pass this measure within the 30 calendar days of session provided by the law and whether the bill would survive a Presidential veto.
- Also noteworthy, if Congress adjourns in early October before the 30 days have expired, the remainder of the time frame will carry-over into the second session of this Congress.
- The Line Item Veto Act provides the following expedited procedures in the Senate to enact a bill disapproving a cancellation:

Within 5 calendar days of session, after receipt of the President notifying Congress of a cancellation, any member of the Senate may introduce a “disapproval bill” containing any or all of the cancellations. The bill is referred to the appropriate committee and if that committee has not reported the bill within 7 days, then the committee is discharged from consideration of the bill.

The motion to proceed to a disapproval bill is not debatable. Senate floor consideration is limited to 10 hours, though this time period can be extended for an additional 5 hours through adoption of a non-debatable motion.

Only amendments which strike or add cancellations contained in the President’s special message are in order. To enforce this restriction on amendments, a 3/5ths vote point of order will lie against any other amendment.

There is 1 hour of debate on amendments and it is not in order to offer amendments or motions after the expiration of the 10 hours on the bill. Motions to recommit are not allowed.

Expedited procedures are provided for consideration of a House companion measure and to send a disapproval bill to conference. There are 4 hours of debate on a conference report and motions to recommit are not in order.

If Congress passes a disapproval and the President signs the disapproval bill, the cancellations are null and void. If the President vetoes a disapproval bill, the cancellations remain in effect unless the Congress overrides the veto with a 2/3rds vote in each House.

SENATE BUDGET COMMITTEE FALL 1997 SCHEDULE:
BACK TO SCHOOL

- Following the successful completion of this summer’s balanced budget and tax reduction legislation, Members and staff of the Senate Budget Committee now turn their attention this fall to enforcement of the historic legislation -- including scorekeeping, appropriation adjustments authorized by the Agreement and monitoring and enforcement of major authorization legislation’s impact on the Agreement, such as ISTEA (transportation) and a possible tobacco agreement.
- As required by the new legislation a Senate Task Force on Consideration of the Budget Measures shall also report to the full Senate by October 8.
- Further, Chairman Domenici will announce next week the creation of four major bipartisan task forces including oversight hearings for: (1) Social Security, (2) foreign affairs budgeting, (3) education

funding, and (4) federal credit programs. The first task force hearing on foreign affairs budgeting will be September 30.

- Finally, the increasing prospects of the Europe adopting a common currency -- the **euro** in January 1999 -- will have major economic, national security, fiscal and monetary ramifications for the United States.
- Chairman Domenici has announced tentative full Committee hearings for the fall concerning the potential impact of the European Monetary Union (EMU) as follows:

October 21: Impact of EMU on US Economy.

October 23: Europe’s Long-Term Fiscal Challenge (Pensions): Lessons for the US.

October 28: EMU and NATO Enlargement: the Policy Debate.

October 30: DoD Underfunding and NATO/EMU Expansion.

APPROPRIATIONS UPDATE

- As of September 5, 10 of the 13 appropriations bills had passed the Senate and are ready for conference. Two more, Interior and Labor, have been reported out of committee and are ready for floor consideration. The District of Columbia appropriations bill is the lone hold out.

STATUS OF APPROPRIATIONS BILLS IN THE SENATE								
(\$ in billions, Discretionary Spending)								
		\$Status		602 (b)		Difference		Status
		BA	OT	BA	OT	BA	OT	
Ag	Non-def	13.8	14.0	13.8	14.2	--	-0.13	Passed
	Defense	0.3	0.3	0.3	0.3	-0.02	--	Passed
CJS	Non-def	25.6	25.2	25.6	25.5	-*	-0.32	
	Crime	5.2	3.4	5.2	3.4	--	-0.02	
	TOTAL	31.1	28.9	31.1	29.2	-0.03	-0.34	
	Defense	247	244	247	244	--	-0.05	Passed
	Non-def	--	*	--	*	--	--	
	TOTAL	247	244	247	244	--	-0.05	
DC	Non-def	--	--	0.8	0.5	-0.81	-0.5	None
Energy	Defense	11.8	12.0	11.8	12.0	--	-*	Passed
	Non-def	9.0	8.9	9.0	8.9	--	-*	
	TOTAL	20.8	20.9	20.8	20.9	--	-*	
	Non-def	16.8	13.1	16.7	13.1	0.09	-*	Passed
For. Ops.	Non-def	13.7	13.7	13.7	13.7	*	-0.04	Reprtd
Labor	Non-def	79.6	76.0	79.6	76.0	--	-0.08	Reprtd
	Crime	0.1	0.1	0.1	0.1	--	--	
	TOTAL	79.7	76.0	79.7	76.1	--	-0.08	
Leg Branch	Non-def	2.3	2.3	2.3	2.3	-*	-0.07	Passed
Mil. Con.	Defense	9.2	9.9	9.2	9.9	*	-0.02	Passed
Transp.	Defense	--	0.1	--	0.1	--	--	Passed
	Non-def	12.2	36.9	12.2	36.9	--	-*	
	TOTAL	12.2	36.9	12.2	36.9	--	-*	
	Non-def	12.5	12.3	12.5	12.3	-*	-*	Passed
Treasury	Crime	0.1	0.1	0.1	0.1	--	-0.01	
	TOTAL	12.6	12.4	12.6	12.4	-*	-0.01	
VA - HUD	Defense	0.1	0.1	0.1	0.1	-*	--	Passed
	Non-def	68.7	79.6	68.7	79.6	--	-*	
	TOTAL	68.9	79.7	68.9	79.7	-*	-*	
	Defense			0.6	0.16	-0.6	-0.16	
Reserve	Non-def			1.1	0.22	-1.1	-0.22	
	Defense	268	267	269	267	-0.62	-0.23	
TOTAL	Non-def	254	282	256	283	-1.84	-1.34	
	Crime	5.5	3.6	5.5	3.6	--	-0.3	

NOTE: CBO/SBC scoring. Details may not add to totals due to rounding. *Less than 10 million.